



**DEFENSE CONTRACT AUDIT AGENCY**  
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IN REPLY REFER TO

PIC 730.5.35.1

3 May 1999  
99-PIC-050(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT:** Audit Guidance on Issuing a DCAA Form 1

This memorandum provides audit guidance for issuing a DCAA Form 1, Notice of Costs Suspended and/or Disapproved under Cost Reimbursement Contracts. Based on input received from the field, additional audit guidance is necessary in issuing a DCAA Form 1 when disallowed costs relate to a:

- cost element (e.g., labor) that is not currently being billed, or
- contract with no active billings.

***BACKGROUND***

Auditors have recently encountered the following two conditions when issuing a DCAA Form 1:

*Condition 1:*

An auditor determined that \$200 thousand of labor costs under Contract A should be disapproved following the guidance in CAM 6-902b. However, the contract is near completion and the contractor is currently only billing final subcontract costs. All labor costs incurred under Contract A have already been billed.

Question: When the costs questioned relate to a particular cost element (e.g., labor), must the DCAA Form 1 disapproval be taken only against that cost element?

*Condition 2:*

An auditor determined that \$200 thousand of labor costs under Contract B should be disapproved following the guidance in CAM 6-902b. However, Contract B is completed and there are no active billings.

Question: How should the Form 1 be issued since there are no active billings under Contract B to which to apply the DCAA Form 1?

**GUIDANCE**

*Condition 1:*

Auditors may disapprove the total questioned labor amount of \$200 thousand from the next billing submitted under Contract A no matter what cost elements are being billed. FAR 52.216-7(g), Allowable Cost and Payment, allows adjustments to be made against current billings for any prior overpayments. This guidance supplements the instructions currently in CAM 6-907 for applying the disapproved amount to the public voucher.

*Condition 2:*

A DCAA Form 1 should be issued under Contract B even though there are no active billings under the contract. Auditors should reference Contract B and the \$200 thousand of disapproved costs in the designated blocks on the DCAA Form 1. Following the explanatory paragraph describing the reason for the DCAA Form 1 (CAM 6-905.1a(8)), the auditor should provide a statement explaining that:

- ACO action is necessary to recoup the disapproved costs because there are no active billings under Contract B to which to apply the DCAA Form 1, and
- to recoup the disapproved costs the ACO should issue a final decision and a demand for payment (see FAR 32.608(c)).

If the ACO issues a demand for payment and the contractor does not make payment within 30 days, the ACO may authorize DCAA to disapprove the costs under another contract with active billings. The courts have ruled that the government has a common-law right to offset contract debts against payments due the contractor under other contracts.

The following is an example of the type of statement that the auditor should include in the DCAA Form 1:

*The purpose of this DCAA Form 1 is to initiate ACO action in rendering a final decision on the disapproved costs associated with the issue described herein with which the contractor does not agree. Currently, there are no active billings under Contract No. \_\_\_\_\_. The ACO, therefore, should take immediate action to recoup the disapproved cost, i.e., issue a final decision and a demand for payment (see FAR Subpart 32.6). If the contractor does not make payment within 30 days following the issuance of the demand for payment, the ACO should coordinate with DCAA when initiating procedures to recoup the disapproved amount through intercontractual offset.*

We will incorporate this new guidance in CAM 6-902. In addition, auditors are reminded that they are responsible for keeping ACOs advised of issues which have the potential for becoming the subject of a DCAA Form 1, and should consult with ACOs before issuing a DCAA Form 1 (CAM 6-902e).

Field audit office personnel should direct any questions regarding this memorandum to their regional offices. Regional personnel should direct questions to Mr. Robert Keri, Program Manager, Incurred Cost Division, at (703) 767-2250; fax (703) 767-2279; or e-mail, DCAA-PIC@dcaa.mil.

Signed: Robert DiMucci

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